

Economic Policies 1970-1980's

Nixon
Carter
Reagan

Ford, Carter and Economic Malaise Crash Course and the Reagan Revolution Crash Course

Ford, Carter and the Economic Malaise: https://www.youtube.com/watch?v=pyN5LPHEQ_0

The Reagan Revolution: https://www.youtube.com/watch?v=2h4DkpFP_aw

Ford, Carter and the Economic Malaise: Watch entire clip

1. In the 1970's 25 years of economic growth came to a halt. What happened to the economy in the late 1970's?
2. Describe what happened in manufacturing in the 1970's?
3. In 1973 and 1979 the U.S. faced oil shocks. How did this oil supply impact our economy? Why?
4. What did President Ford policy of WIN stand for?
5. Define stagflation.
6. Summarize President Carter "Crisis of Confidence Speech" also known as Malaise Speech and describe how American's reaction.
7. How did the economy of the 1970's impact support of the new deal liberalism?

Reagan Revolution: Watch the Crash course and stop at 9:53

1. Describe what Reagan's included in his economic Bill of Rights

2. President Reagan biggest accomplishment was that he lowered the tax rate:

1981 _____ to _____

1986 to _____

3. What is trickle-down economics (Supply-side economics)?

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During the 1960s, the primary goal of economic policy was to encourage growth and keep unemployment low. But by the early 1970s, the economy started to suffer from stagnation, high unemployment, and inflation, coupled with stagnant economic growth. This presented economic policymakers with a new and perplexing dilemma since unemployment and inflation usually do not coexist.

The problem with stagflation was the pain of its options. To attack inflation by reducing consumer purchasing power only made unemployment worse. The other choice was no better. Stimulating purchasing power and creating jobs also drove prices higher. Not surprisingly, economic policy during the 1970s was a nightmare of confusion and contradiction.

By 1971, pressures produced by the Vietnam War and federal social spending, coupled with the increase in foreign competition, pushed the inflation rate to 5 percent and unemployment to 6 percent. President Richard Nixon responded by increasing federal budget deficits and devaluing the dollar in an attempt to stimulate the economy and to make American goods more competitive overseas. Nixon also imposed a 90-day wage and price freeze, followed by a mandatory set of wage-price guidelines, and then, by voluntary controls. Inflation stayed at about 4 percent during the freeze, but once controls were lifted, inflation resumed its upward climb.

In 1974, during the first oil embargo, inflation hit 12 percent. Gerald Ford, the new president, initially attacked the problem in a traditional Republican fashion, by tightening the money supply by raising interest rates and limiting government spending. In the end, his economic program proved to be no more than a series of ineffectual wage and price guidelines monitored by the federal government. In the subsequent recession, unemployment reached 9 percent.

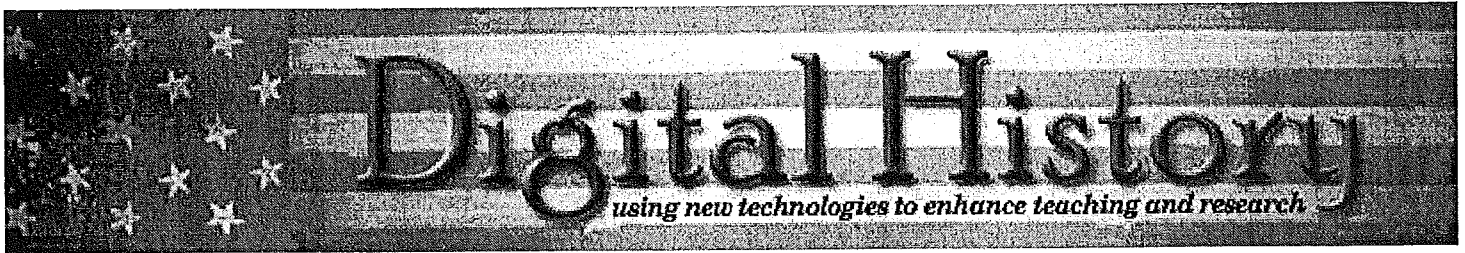
When Jimmy Carter took office in January 1977, unemployment had reached 7.4 percent. Carter responded with an ambitious spending program and called for the Federal Reserve (the Fed) to expand the money supply. Within two years, inflation had climbed to 13.3 percent.

With inflation getting out of hand, the Federal Reserve Board announced in 1979 that it would fight inflation by restraining the growth of the money supply. Unemployment increased, and interest rates rose to their highest levels in the nation's history. By November 1982, unemployment hit 10.8 percent, the highest since 1940. One out of every five American workers went some time without a job.

Along with high interest rates, the Carter administration adopted another weapon in the battle against stagflation: deregulation. Convinced that regulators too often protected the industries they were supposed to oversee, the Carter administration deregulated air and surface transportation and the savings and loan industry. The effects of deregulation are still hotly contested. Rural towns suffered cutbacks in bus, rail, and air service. Truckers and rail workers lost the economic benefits of regulation. Travelers complained about rising airfares and congested airports. Cable TV viewers resented rising rates. Champions of deregulation, however, argued that the policy increased competition, stimulated new investment, and forced inefficient firms either to become more efficient or to close down.

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When President Reagan took office, he promised to rebuild the nation's defenses, restore economic growth, and trim the size of the federal government by limiting its role in welfare, education, and housing. He pledged to end exorbitant union contracts to make American goods competitive again, to cut taxes drastically to stimulate investment and purchasing power, and to decontrol businesses strangled by federal regulation. Even though his policies trimmed little from the size of the federal government, failed to make American goods competitive in the world market, and led to increased consolidation rather than competition, many Americans believed that he had improved the country's economic situation.

Reagan blamed the nation's economic ills on declining capital investment and a tax structure biased against work and productive investment. To stimulate the economy, he persuaded Congress to slash tax rates. In 1981, he pushed a bill through Congress cutting taxes 5 percent in 1981 and 10 percent in 1982 and 1983. In 1986, the administration pushed through another tax bill, which substantially reduced tax rates of the wealthiest Americans to 28 percent, while closing a variety of tax loopholes.

In August 1981, Reagan dealt a devastating blow to organized labor by firing 15,000 striking air-traffic controllers. Union leaders condemned the firings, but in an anti-union atmosphere, most Americans backed Reagan. His popularity ratings soared.

To strengthen the nation's defenses, the Reagan administration doubled the defense budget--to more than \$330 billion by 1987. Reagan believed that a militarily strong America would not have been humiliated by Iran and would have discouraged Soviet adventurism.

Reagan expanded the Carter administration's efforts to decontrol and deregulate the economy. Congress deregulated the banking and natural gas industries and lifted ceilings on interest rates. Federal price controls on airfares were lifted as well. The Environmental Protection Agency relaxed its interpretation of the Clean Air Act; and the Department of the Interior opened up large areas of the federal domain, including offshore oil fields, to private development.

The results of deregulation were mixed. Bank interest rates became more competitive, but smaller banks found it difficult to hold their own against larger institutions. Natural gas prices increased, as did production, easing some of the country's dependence on foreign fuel. Airfares on high-traffic routes between major cities dropped dramatically, but fares for short, low-traffic flights skyrocketed. Most critics agreed, however, that deregulation had restored some short-term competition to the marketplace. Yet in the long-term, competition also led to increased business failures and consolidation.

Reagan's laissez-faire principles could also be seen in his administration's approach to social programs. Convinced that federal welfare programs promoted laziness, promiscuity, and moral decay, Reagan limited benefits to those he considered the "truly needy." His administration cut spending on a variety of social welfare programs, including Aid to Families with Dependent Children; food stamps; child nutrition; job training for young people; programs to prevent child abuse; and mental health services. The Reagan administration also eliminated welfare assistance for the working poor and reduced federal subsidies for child-care services for low-income families. Symbolic of the Reagan social service cuts, an attempt was made by the Agriculture Department in 1981 to allow ketchup to be counted as a vegetable in school lunches.

Reagan left office while the economy was in the midst of its longest post-World War II expansion. The economy was growing faster, with less inflation, than at any time since the mid-1960s. Adjusted for inflation, disposable personal income per person rose 20 percent after 1980. Inflation fell from 13 percent in 1981 to less than 4 percent annually. Unemployment was down to approximately 5 percent.

Critics, however, charged that Reagan had only created the illusion of prosperity. They denounced the massive federal budget deficit, which increased \$1.5 trillion during the Reagan presidency--a deficit that was three times the debt accumulated by all 39 of Reagan's presidential predecessors. His critics decried the growing income gap between rich and poor. They also criticized the expensive consequences of reduced government regulation, namely, cleaning up federal nuclear weapons facilities, and especially, bailing out the nation's savings and loans industry.

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